

HOWARD S. WEITZMAN
COUNTY COMPTROLLER



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Hon. Thomas R. Suozzi, Nassau County Executive
Members of the Nassau County Legislature:

The comptroller's office is committed to working with you to help solve the financial challenges facing the county, while maintaining our role as the county's independent fiscal watchdog. An important part of that role is the preparation of this Comprehensive Annual Financial Report ("the report") for the year ended December 31, 2001, as required by New York State County Law, Article 14 § 577.1(j-k).

Nassau County completed the fiscal year ended December 31, 2001, with a combined surplus in its five major funds (General Fund, Police Headquarters, Police Districts, County Parks and Fire Commission) of \$7.1 million, as determined by current governmental accounting principles generally accepted in the United States. At year-end, the \$7.1 million was transferred to the Technology Reserve Fund for future technology requirements.

The 2001 surplus is primarily attributable to the financial intervention of the Nassau Interim Finance Authority (NIFA). Without the infusion of \$115.4 million in aid from NIFA, as well as the use of some \$22 million in tobacco settlement monies and \$12.8 million of the fiscal year 2000 surplus, the county would have ended 2001 with a \$143 million deficit. NIFA is reported as a blended component unit in the county's financial statements.

Nassau County would have ended fiscal year 2001 with an operating surplus of \$19.4 million if not for an expense accrual of \$12.3 million to reflect the impact of state-aid advances that were improperly recorded as revenue in prior years. It should also be noted that the county had an unreserved fund balance of \$27.8 million from 1999 surplus funds, \$18 million of which was appropriated in the 2002 Adopted Budget.

Effective beginning with fiscal 2002, the county must adopt Governmental Accounting Standards Board Statement No. 34 (GASB 34) – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The county is in the process of evaluating the impact on the financial statements resulting from the adoption of GASB 34.

Responsibility for the accuracy of the report's data and the completeness and fairness of the data's presentation – including all disclosures – rests with the county. I believe the data, as presented, is accurate in material aspects; and fairly presents the financial and operational condition of the county – as measured by the financial activity of its various funds, account groups and component units, and that necessary disclosures have been included.

The report contains three sections: introduction, financial statements, and statistics. In addition to this transmittal letter, the introductory section includes the county's organizational chart and a listing of principal officials. The financial section incorporates the general-purpose financial statements and the combined & individual fund-and account-group financial statements and schedules, as well as the independent auditors' report prepared by Deloitte & Touche, LLP. The Notes to the Combined Financial Statements are an integral part of this report and must be referred to when assessing the financial data. The statistical section includes selected financial and demographic information that is generally presented on a multi-year basis. While the data included in the statistical section have been verified and are believed to be accurate, they have not been subject to the audit process applied to the statements and schedules contained within the financial section.

The county is also required to undergo an annual "single audit" in conformance with the provisions of the Federal Single Audit Act (as amended) and the United States Office of Management and Budget's Circular A-133: *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to this single audit – including the schedule of expenditures of federal grants, findings, recommendations and corrective action plan; the independent auditors' report on internal controls over financial reporting, based on an audit of financial statements performed in accordance with *Government Auditing Standards* and its report on compliance with applicable laws, regulations, contracts and grants applicable to major federal programs; and internal controls over such compliance – are usually not provided in this report. This information is usually presented as a separate report. The independent auditors' report on compliance and on internal controls over financial reporting is included as an appendix. The auditors' report for 2001 identifies certain internal-control weaknesses related to the reconciliation of cash-account balances, which are being addressed by the county treasurer.

The county funds a full range of municipal services – including public safety, health and education, highways and sanitation, public improvements and parks, recreational facilities and cultural events, as well as planning and general administrative services.

The various funds, account groups, and component units included in this report are deemed to be controlled by, or financially accountable to, the county based on criteria set forth by the Governmental Accounting Standards Statement No. 14 as discussed in Note 1 to the Combined Financial Statements.

FINANCIAL CONDITION

Nassau County is one of America's wealthiest suburban communities. The county has, nevertheless, increasingly encountered severe financial difficulties, including deepening structural deficits and diminished debt ratings. This occurred during a decade of substantial economic growth nationwide, as county services and expenses grew over the years without a corresponding increase in revenues. As a result, the Nassau County Interim Finance Authority (NIFA) was created by New York State to reduce the cost of borrowing and oversee the county's financial plan.

With NIFA's aid, the county ended 2001 with a combined operating surplus of \$7.1 million for its five major funds. The entire amount was transferred to the newly established Technology Reserve Fund.

MAJOR INITIATIVES

The county's capital improvement program has been negatively impacted by the substantial amount of debt incurred to pay successful property tax assessment challenges, of which more than \$1 billion in bonds are outstanding. However, during 2001 the county has been able to complete major public works projects previously underway. They include \$26.4 million of construction costs in road rehabilitation and traffic control maintenance and \$2.6 million in park improvements. Also completed were \$20 million of improvements at the Cedar Creek Water Pollution Control Plant; \$15 million worth of building improvements at the Bay Park Sewage Treatment Plant; and rehabilitation of sewage pumping stations, pipelining, and creeks at a cost of almost \$6 million. A number of building refurbishments – such as roof replacements and alarm systems for Nassau County buildings – were completed at a cost of \$1.6 million.

Significant projects currently underway include \$3.6 million in park improvements and \$23.3 million worth of road rehabilitations, traffic controls and street light maintenance. Also under construction are \$26 million of improvements at the Bay Park Sewage Treatment Plant; \$21 million of improvements at the Cedar Creek Water Pollution Control Plant; and \$6.7 million of various pipeline, manhole, and sewer rehabilitation and pond dredging. Building construction and improvements include \$2 million for the construction cost of the police department's marine bureau facilities at Bay Park and \$2.1 million in court improvements.

Subject to the county's new five-year capital-spending plan, work slated to begin in 2002 includes more than \$41 million in road improvements; \$10.5 million rehabilitation of the Long Beach Bridge; and \$1.8 million in improvements to various parks and athletic fields. Planned work also includes more than \$9 million of sewer and sewer plant improvements and \$4.8 million of pond dredging and stream-water basin rehabilitation. A number of building improvements, at a cost of \$6 million, are also anticipated.

FINANCIAL INFORMATION

Internal Controls

The county comptroller is responsible for auditing, establishing and maintaining an internal control structure designed to ensure that the assets of the county are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for preparation of financial statements in conformance with accounting principles generally accepted in the United States. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgment by county managers.

As a recipient of federal grants, the county also is responsible for establishing an internal control structure in compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by personnel in the comptroller's office as well as by the independent auditors engaged to conduct the annual single audit as required by law.

During their audit of the county's 2001 financial statements, our independent auditors identified certain internal-control weaknesses related to cash account-balances reconciliations. We understand that the new county treasurer is addressing these issues.

Budgetary Controls

In addition, the county establishes budgetary controls to ensure compliance with legal provisions contained in the annual appropriated budgets approved by the county legislature. Activities of the General Fund and of the Special Revenue Funds, with the exception of the Grant Fund, are provided for in annual appropriated budgets. Activities of the Grant Fund are appropriated for the life of each grant, as the individual grants are made available to the county. Project-length financial plans are adopted for the Capital Projects Funds. The level of budgetary control at which expenditures cannot exceed the appropriated amount is exercised by object appropriation level within a department control center. The county also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Appropriations, which have not been expended or encumbered, lapse at the end of the year. Encumbrances outstanding at year-end are recorded in order to reserve that portion of the applicable appropriation and may be expended in a subsequent budgetary period.

General Governmental Functions

The schedule on the following page presents a summary of the revenues and other financing sources for the General Fund, Police Headquarters, County Parks and Fire Commission, for the year ended December 31, 2001, and the amount and percentage of increases/ decreases in relation to prior-period revenues and other financing sources. Certain financial exhibit details have been combined for letter of transmittal presentation, in addition to the netting of sources and use of funds for debt refunding. These figures do not include the Police District Fund, which does not cover all county residents:

Table 1: Summary of Revenues and Other Financing Sources, \$ thousands

	2001 Amount	Percent of Total	Increase (Decrease) from 2000	Percent of Increase (Decrease)
Interest and Penalties on Taxes	\$ 19,014	0.9%	\$ 5,717	43.0%
Investment Income	16,257	0.8%	(6,355)	-28.1%
Departmental	149,157	7.0%	(18,870)	-11.2%
Interdepartmental	101,625	4.8%	(4,150)	-3.9%
Federal Aid	106,037	5.0%	820	0.8%
State Aid	200,092	9.4%	13,924	7.5%
Sales Tax	806,683	38.0%	8,002	1.0%
Property Taxes	291,068	13.7%	36,373	14.3%
Proceeds from Tax Certiorari and Other Judgments and Borrowings	186,102	8.8%	47,707	34.5%
Operating Transfers In	172,860	8.1%	(16,878)	-8.9%
Other	<u>74,205</u>	<u>3.5%</u>	<u>(24,634)</u>	<u>-24.9%</u>
TOTAL	<u>\$ 2,123,100</u>	<u>100.0%</u>	<u>\$ 41,656</u>	

The increase in interest and penalties on taxes results from the introduction of several revenue initiatives related to penalties and fees on delinquent property taxes. Investment income decreased as a result of declining interest rates. The significant decline in departmental revenue is primarily attributable to the prior-year's receipt of a contractual reimbursement for a retroactive intergovernmental transfer from New York State to the Nassau Health Care Corporation (NHCC). The decrease in interdepartmental revenue, associated with charge-backs for workers' compensation, result from a prior year accrual that exceeds actual expenditures and a procedural change whereby costs incurred by the county on behalf of the NHCC are not charged back within the General Fund. Federal aid revenue fluctuates slightly in direct relation to associated reimbursable expenditures. The increase in state aid represents additional reimbursements for escalated social service and mental health expenditures. While sales tax receipts appear to have grown by only 1%, it is important to note that the amount shown is net of set-asides for debt repayment held by NIFA. Actual fiscal 2001 sales tax revenues grew by approximately 3.1 % over the prior year. Property-tax receipts rose as a result of an increase in the county tax levy. The borrowing necessary to fund successful property-tax challenges increased, as did associated payments, since the county attempted to clear up a portion of the backlog of these liabilities. Operating transfers declined substantially since less investment income was available from the Capital Fund to be used for debt-service costs. The absence of two extraordinary items received during the prior year, LIPA settlement revenue and retroactive New York State reimbursement for state-ready prisoners at the Correctional Center, led to a drop in other revenues.

The schedule on the following page summarizes expenditures and other uses for the General Fund, Police Headquarters, County Parks and Fire Commission, for the year ended December 31, 2001 and the amount and percentage of increases/ decreases in relation to prior-period expenditures and other uses as previously presented. Certain financial exhibit details have been combined for letter of transmittal presentation. These figures also do not include the Police District Fund, which does not cover all county residents.

Table 2: Summary of Expenditures, \$ thousands

	2001 Amount	Percent of Total	Increase (Decrease) from 2000	Percent of Increase (Decrease)
Legislative and Judicial	\$ 51,395	2.4%	\$ 4,492	9.6%
General Administration	179,530	8.5%	7,955	4.6%
Protection of Persons	286,261	13.5%	4,430	1.6%
Health	162,353	7.7%	16,449	11.3%
Public Works	44,039	2.1%	2,732	6.6%
Recreation and Parks	58,298	2.7%	1,720	3.0%
Social Services	518,640	24.5%	18,900	3.8%
Corrections	171,555	8.1%	27,832	19.4%
Education	4,779	0.2%	(575)	-10.7%
Aid to Towns and Cities	49,097	2.3%	1,661	3.5%
Payments for Tax Certiorari and Other Judgment Borrowings	175,474	8.3%	52,584	42.8%
Other Expenditures	45,743	2.2%	8,825	23.9%
Debt Service	1,421	0.1%	(653)	-31.5%
Operating Transfers	<u>372,088</u>	<u>17.4%</u>	<u>(100,782)</u>	<u>-21.3%</u>
TOTAL	<u><u>\$2,120,673</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 45,570</u></u>	

The county's increased expenditures partially resulted from scheduled step and cost-of-living increases paid to county workers pursuant to various collective bargaining agreements and county ordinances. Additionally, during 2001, the outstanding balance of early retirement-incentive programs and certain other retirement benefit costs were paid in full. In the past, the county had elected to finance these expenditures through the State Retirement System, for the most part, over a five-year period. This change, along with a 10% hike in health-insurance premiums, resulted in an increase in fringe-benefit expenditures over the prior year for most county agencies.

In addition to the increased personnel costs described above, health expenditures rose as a result of an increased early-intervention caseload. A significant portion of these costs is offset by state aid and Medicaid reimbursement. The increase in social service expenses was primarily due to a \$12.3 million expense accrual established to correct New York State advances that had been incorrectly recorded as revenue during the period 1996 through 2001. The increase in salary expenditures for corrections was proportionately higher than that for other agencies as a result of the settlement of the Sheriff's Officers Association labor contract, which included retroactive pay adjustments. County aid to local towns and cities increased in proportion to overall sales-tax revenue growth. Payments for successful property-tax assessment challenges increased significantly over the prior year as a result of efforts to reduce the backlog of related claims. The increase in other expenditures is directly related to the payment of early-retirement incentive costs made on behalf of the NHCC, and the timing of other ongoing payments to the NHCC, of

which certain amounts were advanced at the transfer date in 1999, thereby lowering the amount paid in 2000. Operating transfers decreased substantially as a result of a decline in debt-service requirements since NIFA refinanced \$90 million in long-term county debt and less surplus funds were available to be transferred to the Debt Service Fund.

General Fund

The County ended the 2001 year with a \$34.7-million unreserved fund balance in the General Fund, of which \$7.1 million was transferred to the newly created Technology Reserve Fund to fund future information-technology initiatives. The ending fund balance included \$27.5 million from 1999, as well as a number of other significant non-recurring revenues. NIFA generated more than \$105 million of these revenues and savings, including \$90 million in savings from debt restructuring and \$15 million of direct transitional New York State aid. Other non-recurring gains include \$22 million from tobacco securitization and approximately \$13 million of the fiscal year 2000 surplus that was used for debt-service expenditures.

Special Revenue Funds

Unreserved fund balances (deficits) for each of the special revenue funds are set forth below – as of December 31, 2001 and December 31, 2000 – together with the amount of increase or decrease over 2000.

Table 3: Unreserved Fund Balances for Each of the Special Revenue Funds, \$ thousands

December 31, 2001					
	Fund Balance (Deficit) Unreserved	Fund Balance Unreserved and Designated for Ensuing Year's Budget	Fund Balance (Deficit) Unreserved and Undesignated	Fund Balance (Deficit) Unreserved, December 31, 2000	Increase (Decrease) over 2000
Police District	\$ -	\$ -	\$ -	\$ (7,701)	\$ 7,701
Police Headquarters	-	-	-	-	-
Fire Prevention, Safety, Communication and Education	235	-	235	74	161
Sewage Disposal District #1	697	276	421	1,998	(1,301)
Sewage Disposal District #2	13,520	866	12,654	(1,254)	14,774
Sewage Disposal District #3	9,826	4,051	5,775	8,515	1,311
Sewage Collection Districts	11,011	4,626	6,385	10,322	689
Grant	(52,374)	-	(52,374)	(55,064)	2,690
County Parks and Recreation	-	-	-	-	-
NIFA General Fund	526	-	526	484	42
Technology Reserve	7,100	-	7,100	-	7,100
TOTAL	\$ (9,459)	\$ 9,819	\$ (19,278)	\$ (42,626)	\$ 33,167

The Police Headquarters Fund's initial 2001 deficit was eliminated as a result of a \$93 million transfer from the county's General Fund.

Pension Funding

Almost all county employees are members of either the New York State and Local Employees' Retirement System or the New York State and Local Police and Fire Retirement System. During 2001, the remaining balance of the early-retirement-incentive programs and certain other retirement-benefit costs – historically financed over a five-year period – were paid in full from the fiscal 2000 surplus funds.

Debt Administration

On December 31, 2001, the county had approximately \$2.4 billion in long-term serial bonds outstanding, with \$1.8 billion for general county purposes; this includes \$855 million for financing tax certiorari settlements, and nearly \$317 million for sewage district purposes. NIFA had \$436 million of bonds for county purposes outstanding, of which \$145 million was for tax settlements. Also outstanding at year-end were state-revolving-fund loans in the amount of \$2.7 million. The county's uninsured bonds are rated "Baa3" by Moody's Investors Service, "BBB-" by Standard and Poor's (S&P) Rating Group, and "BBB" with Fitch IBCA, Inc. For those bonds that have been insured by municipal bond insurance companies, the county has maintained its "Aaa" rating from Moody's and it's "AAA" rating from both S&P and Fitch. Under current New York State law, the county's bonded-debt issuances, excluding debt for sewage and water projects, are subject to a constitutional limitation based on ten percent of the average full valuation of real property for the latest five years. The county's net outstanding indebtedness on December 31, 2001, was approximately 27 percent of its constitutional debt limit, which represents no change from 2000. The county's bonded debt per-capita, including NIFA and Nassau Community College debt, was \$2,129.

Cash Management

While the county has an aggressive cash-management program, its policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Substantially all idle funds are invested from one to 30 days and are fully collateralized by securities prescribed in the law and held in trust by the county's agent, in the name of the county, for this purpose. As of December 31, 2001, \$405 million was invested at rates ranging from 1.7 to 2.2 percent annually. These investments were in repurchase agreements and certificates of deposit.

Risk Management

The county is exposed to various risks of loss related to torts, property loss, employee injuries, errors related to and omissions of its employees, and natural disasters. The county carries property insurance on all county-owned real property and on certain personal property for losses in excess of \$100,000. It also carries liability insurance on its police helicopters and a blanket fidelity bond covering all county employees. Essentially all other risks are assumed by the county directly and are paid out of its operating or capital funds. Expenditures for claims are recorded when paid or when liabilities are recorded if it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

OTHER INFORMATION

Independent Audit

The accounting firm of Deloitte & Touche, LLP was selected by the county's audit committee to perform an independent audit of the county's financial statements as of, and for the year ended, December 31, 2001. The auditors' report on the general-purpose financial statements and combined and individual fund statements and schedules is in the Financial Section. Their report on compliance and internal control over financial reporting is included after the statistical section.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the county for its Comprehensive Annual Financial Report for the year ended December 31, 2000. This is the 17th consecutive year in which the county's Comprehensive Annual Financial Report has been so honored. In order to be awarded the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that this current report continues to conform to the program requirements, and we plan to submit it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report on a timely basis could not have been accomplished without the invaluable assistance of the efficient and dedicated staff of the County Comptroller's Office and our independent auditors, Deloitte & Touche, LLP. I would like to express my appreciation to all those who assisted and contributed to its preparation.

Respectfully submitted,

Howard S. Weitzman
County Comptroller